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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

PERIODIC REPORTING (PROPOSAL NINE)	Docket No. RM2015-2

PETITION OF THE UNITED STATES POSTAL SERVICE FOR THE INITIATION OF A PROCEEDING TO CONSIDER PROPOSED CHANGES IN ANALYTICAL PRINCIPLES (PROPOSAL NINE)
(October 31, 2014)

Pursuant to 39 C.F.R. § 3050.11, the Postal Service requests that the Commission initiate a rulemaking proceeding to consider a proposal to change analytical principles relating to the Postal Service's periodic reports. The proposal, labeled Proposal Nine, is discussed in the attached text.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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Proposal Nine: Refine Split of City Carrier Costs into Office and Street Components

Objective:

This proposal seeks to utilize the Time and Attendance Collection System (TACS) to decompose city carrier accrued costs into office costs (cost segment 6) and street costs (cost segment 7), replacing the current methodology that uses the In-Office Cost System (IOCS). The proposal also uses a recent set of City Carrier Street Route Inspections (Form 3999), rather than IOCS, to determine the proportion of street costs incurred due to loading or unloading the vehicle. It also updates the methodology for attributing and distributing certain related costs that are currently part of the combined Office/Street Burdens, with the assignment depending on whether the carrier is clocked to office or to street. The Postal Service hopes to implement this methodology change for reporting costs at the conclusion of Fiscal Year 2015. This proposal is being filed now to allow ample time for consideration and, if approved, to allow the Postal Service sufficient time to make the necessary changes to the IOCS data processing software.

Background:

The current costing methodology for city carriers requires data on the percentage of time spent in the office versus on the street. This office/street split is needed by various categories of routes, for example for letter routes and for special purpose routes (SPR) separately, and for motorized routes and for foot routes separately. Currently these office/street splits are obtained from IOCS, a sampling system. The Postal Service operational systems have matured to the point where they can now provide the necessary data. Thus, these percentages estimated by IOCS can be replaced with census data from TACS.

Proposal Nine

In the administration of delivery operations, loading and unloading vehicles are considered to be street functions. Carriers are trained to be 'clocked to street' whenever they are loading or unloading mail from their vehicle. In the Cost and Revenue Analysis (CRA) report, however, city carrier street activities associated with loading and unloading the vehicle have been designated as in-office activities, captured by IOCS, and thus are included as part of cost segment 6. IOCS thus currently records, as office time, the readings where carriers are clocked to street time and are loading or unloading vehicles. The attribution level and assignment of these costs is currently done based on the aggregate of the city carrier delivery costs, city carrier network costs, and city carrier in-office costs[1]. This type of IOCS reading is very difficult to capture efficiently, as such readings are often conducted by telephone, with supervisor respondents, and require finding a specific carrier outside of the facility.

Proposal:

There are several components to this proposal.

1. From TACS, obtain the percentages of city carrier time spent in-office versus on-street by Labor Distribution Code (LDC) and by roster designation. These will be used to create costpools by splitting costs within four categories:

    a. FullTime Regular Carriers, Letter routes
    b. FullTime Regular Carriers, SPR
    c. PartTime/Casual/Transitional, Letter routes
    d. PartTime/Casual/Transitional, SPR

    The office/street split percentage for letter routes is determined by hours clocked to LDCs 21, 22, and 26. The split for SPR is determined using the hours clocked in TACS to the office and street MODS codes within LDCs 23 and 27. These splits are made for each of the two groups of roster designations (Full Time Regular or

[1] See Docket RM2009-10, Order No. 339, (November 13, 2009), Proposal Seven at 9-10.

Part Time/Casual/Transitional). These will be multiplied with the labor costs for each roster designation group, available from TACS, to produce the accrued costs for the eight costpools.

2. For the purposes of further subdividing street costs, street costs associated with loading and unloading the vehicle will be derived by multiplying TACS-based street costs with the proportion of vehicle loading and unloading time based on Form 3999 data. (Unlike in the current methodology, however, these costs will remain in cost segment 7 instead of being shifted into cost segment 6.) The attribution level and distribution method for these costs will be the same as for regular delivery time in cost segment 7.
3. In IOCS, most tallies associated with a carrier clocked to an office MODS code will be assigned to cost segment 6. This includes when the carrier is clocking out, which is still office time. The exception will be tallies for training activities, which will be attributed and distributed on aggregate office and street costs. .
4. The IOCS cost model will be expanded to use the control totals for the four categories calculated in Step 1 above using TACS data[2,3].
5. The costing methodology for motor vehicle services in cost segment 12 uses an office/street percentage split for motorized routes. The split of workhours for motorized routes is available from DOIS and can replace the current proxy from IOCS.
6. The costing methodology for vehicle driveout and carfare in cost segment 13 uses an office/street percentage split for foot routes to determine the attribution and

[2] Currently, IOCS uses two control total costs for carriers: total labor costs by the two craft subgroups: a) full-time regular carriers, and b) part-time, casual and transitional carriers.
[3] For IOCS readings where the carrier is not assigned to a specific route type, the cost will be apportioned to regular and SPR routes in proportion to TACS.

distribution of carfare and drive-out costs. The split of workhours for foot routes is available from DOIS and can replace the current proxy from IOCS.

7. Data will be reported by route groups (letter and special purpose) rather than by route type.

Rationale:

Replacement of the current sampling estimate of the office/street split with census data will increase the overall precision of the product cost estimates. This will also enable a redesign of the approach used by IOCS for sampling city carriers. If IOCS no longer has to estimate the office/street split, it can focus its sampling effort on carriers while they are in the office rather than on the street.

Most city carriers have the street portion of their routes evaluated annually. These street evaluations are conducted by postal employees observing and recording with a Data Collection Device (DCD) the time it takes to perform carrier street activities. Before the use of DCDs, the street evaluations were done by hand on Postal Form 3999. Hence, the collection of these evaluations is often referred to, and we will also use this convention, as the Form 3999 data set. This data set consists of one observation for each city carrier letter route in the country[4]. Two activities recorded during street route evaluations that are germane to this proposal are the times required for a carrier to load and unload his/her vehicle. This proposal seeks to replace the difficult and time-consuming IOCS loading/unloading readings with the relevant proportions computed from the Form 3999 data set. As Table 1 under 'Impact' shows, the Form 3999 data set shows higher costs for loading/unloading vehicles than IOCS. Delivery operations experts believe that the times

[4] For more information about Form 3999s see Docket RM2011-3, Priorities for Future Data Collection and Analytical Work Relating to Periodic Reporting, May 25, 2012 at 8.

calculated from the Form 3999 data set are more accurate than prior estimates using IOCS. The relevant fields from the Form 3999 data set and pertinent calculations are shown in USPS-RM2015-2/1.

Changing cost segments 6 and 7 to match the operational definitions of office and street time also has several advantages. One, it aligns the costing methodology with the operational reality that loading and unloading vehicles are street activities. Two, it enables the use of the Form 3999 data set to replace IOCS for the development of loading/unloading costs, so IOCS can focus its sampling effort on carriers while they are in the office rather than on the street.

Impact:

The cost impact of the methodology change, based on existing FY13 piggyback factors, is shown on the following two tables. Table 1 shows the impact of the proposal on the relevant costpools. The top half of Table 1 reflects the current methodology (IOCS), while the bottom half reflects the proposed methodology (TACS). Proposal Nine splits city carrier costs into office and street using TACS instead of IOCS. Office costs are shown in rows 1 and 5 of column 4 from IOCS and TACS respectively (proposal changes in-office costs from $3.1 billion to $3.2 billion). The proposal further changes the attribution and distribution method for some costs in segments 6 and 7. Specifically, loading and unloading costs, which are considered street activities, will be assigned based on direct street costs rather than aggregate office and street costs. Under the proposed method, the costs are included in row 6, column 2 of Table 1. Currently they are in row 2, column 3 of Table 1. In addition, in-office (i.e. carrier is clocked to office) costs incurred from clocking in/out or leaving/returning from route (activity codes 6422 and 6522) will be assigned based on direct office costs rather than aggregate office and street costs. These costs will be shifted from row 1, column 3 to row 5, column 2 of Table 1. In aggregate this proposal results in an increase in support costs from

$1.9 billion to $2.7 billion (rows 4 and 8 of column 2) and a decline of costs burdened on aggregate office and street costs from $646 million to $291 million (rows 4 and 8 of column 3)

Table 1 – Impact of Proposal Nine on Cost Segments Six and Seven

	Direct ($000) 1	Support ($000) 2.	Office/Street Burdens ($000) 3	TOTAL ($000) 4.
1. Distributed on Office - IOCS	$2,406,420	$538,807	$134,941	$3,080,168
2. Distributed on Street - IOCS	$9,241,206	$1,140,105	$441,841	$10,823,153
3. Network Travel - IOCS	$1,457,118	$203,608	$69,632	$1,730,358
4. TOTAL IOCS	$13,104,744	$1,882,519	$646,415	$15,633,678
5. Distributed on Office - TACS	$2,359,450	$771,368	$71,019	$3,201,837
6. Distributed on Street - TACS	$8,860,798	$1,639,207	$190,483	$10,690,489
7. Network Travel - TACS	$1,419,589	$292,227	$29,537	$1,741,352
8. TOTAL TACS	$12,639,837	$2,702,803	$291,039	$15,633,678

The following Table 2 shows the impact on product costs. An expanded version of Table 2 also showing the impact on individual Competitive Products is provided under seal in USPS-RM2015-2/NP1.

Table 2: Impact of Proposal Nine on Total CRA Costs

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	CRA CLASS	TOTAL C/S 6 & 7, AS FILED	TOTAL C/S 6 & 7, TACS OFFICE/STREET PROPORTIONS	DIFFERENCE	COST DIFFERENCE WITH PIGGYBACKS	DIFFERENCE IN UNIT COST ($)
	Market Dominant Products						
1	**FIRST-CLASS MAIL**						
2	SINGLE-PIECE LETTERS	3	1,539,729	1,542,966	3,237	4,278	0.000
3	SINGLE-PIECE CARDS	4	84,929	85,166	237	313	0.000
4	PRESORT LETTERS	8	1,126,093	1,122,666	(3,427)	(4,517)	(0.000)
5	PRESORT CARDS	9	54,670	54,419	(251)	(331)	(0.000)
6	SINGLE PIECE FLATS	16	165,937	167,655	1,718	2,246	0.002
7	PRESORT FLATS	17	89,277	90,875	1,598	2,088	0.003
8	PARCELS	19	44,015	44,449	434	572	0.002
9	**TOTAL FIRST-CLASS**		3,104,651	3,108,197	3,546	4,649	0.000
10	**STANDARD MAIL**			-			
11	HIGH DENSITY & SATURATION LETTERS	21	131,999	130,837	(1,162)	(1,538)	(0.000)
12	HIGH DENSITY & SATURATION FLATS & PA	22	280,815	278,928	(1,888)	(2,494)	(0.000)
13	EVERY DOOR DIRECT MAIL - RETAIL	24	23,446	23,296	(150)	(199)	(0.000)
14	CARRIER ROUTE	23	588,339	592,817	4,478	5,857	0.001
15	LETTERS	25	1,381,078	1,374,947	(6,130)	(8,088)	(0.000)
16	FLATS	26	529,267	536,474	7,206	9,387	0.002
17	PARCELS	27	15,114	15,288	174	229	0.003
18	**TOTAL STANDARD MAIL**		2,950,059	2,952,586	2,527	3,155	0.001
19	**PERIODICALS**			-			
20	IN COUNTY	31	27,787	27,915	128	168	0.000
21	OUTSIDE COUNTY	32	395,317	399,847	4,530	5,912	0.001
22	**TOTAL PERIODICALS**		423,104	427,762	4,659	6,081	0.001
23	**PACKAGE SERVICES**			-			
24	SINGLE-PIECE PARCEL POST	41	9,504	9,924	419	563	0.020
25	BOUND PRINTED MATTER FLATS	42	19,568	19,779	211	277	0.001
26	BOUND PRINTED MATTER PARCELS	43	43,698	45,090	1,392	1,870	0.009
27	MEDIA AND LIBRARY MAIL	44	20,756	21,356	600	800	0.009
28	**TOTAL PACKAGE SERVICES**		93,526	96,148	2,622	3,511	0.029
29	**US POSTAL SERVICE**	85	53,054	54,074	1,020	1,330	0.002
30	**FREE MAIL**	86	6,042	6,138	96	125	0.002
31	**Total Domestic Market Dominant Mail**		6,630,436	6,644,905	14,469	18,849	0.000
32	**Ancillary Services**			-			
33	CERTIFIED	51	117,738	116,733	(1,005)	(1,328)	(0.006)
34	COD	52	523	524	1	1	0.003
35	INSURANCE	54	6,191	6,237	46	60	0.002
36	REGISTRY	55	1,326	1,366	41	54	0.024
37	STAMPED ENVELOPES	56	-	-	-		
38	STAMPED CARDS	57	-	-	-		
39	OTHER ANCILLARY SERVICES	58	172,547	174,904	2,357	3,134	
40	**Special Services**		-	-	-		
41	MONEY ORDERS	73	-	-	-		
42	POST OFFICE BOX	74	-	-	-		
43	OTHER SPECIAL SERVICES	76	-	-	-		
44	**Total Domestic Market Dominant Services**		298,325	299,764	1,439	1,922	
45	**Total Domestic Market Dominant Costs**		6,928,761	6,944,669	15,908	20,771	
55	**Total Domestic Competitive Costs**		599,424	617,219	17,795	23,829	
56	**INTERNATIONAL MAIL**	185	57,299	58,661	1,362	1,815	0.003
57	**TOTAL VOLUME VARIABLE COSTS**		7,585,485	7,620,549	35,064	46,415	
58	**OTHER**	199	8,048,193	8,013,129	(35,064)		
59	**GRAND TOTAL**		15,633,678	15,633,678	0		